

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 NEA-11 IO-13 ISO-00 L-03 FRB-03
OMB-01 ITC-01 SP-02 ICA-11 AGRE-00 AID-05 CIAE-00
COME-00 INR-10 LAB-04 NSAE-00 OIC-02 SIL-01
STR-07 TRSE-00 CEA-01 SS-15 INT-05 AF-10 ARA-10
EUR-12 PA-01 CTME-00 DOE-15 SOE-02 GSA-02 /166 W
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FM USMISSION GENEVA

TO SECSTATE WASHDC 0936

INFO ALL OECD CAPITALS

AMEMBASSY BANGKOK

AMEMBASSY COLOMBO

AMEMBASSY KUALA LUMPUR

AMEMBASSY SINGAPORE

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E.O. 11652: N/A

TAGS: UNCTAD

SUBJECT: UNCTAD CONSUMER MEETING ON RUBBER, JUNE 12-15

1. SUMMARY: MORE THAN TWENTY-FIVE CONSUMING COUNTRIES MET UNDER UNCTAD AUSPICES JUNE 12-15 TO REVIEW POSITIONS FOR THE NEGOTIATION ON A NATURAL RUBBER PRICE STABILIZATION AGREEMENT SCHEDULED FOR NOVEMBER. MOST ATTENTION WAS FOCUSED ON THE US PROPOSAL FOR THE CENTRAL ECONOMIC ELEMENTS OF SUCH AN AGREEMENT AND ON A MORE GENERAL FRAMEWORK SUBMITTED BY THE EC. THE JAPANESE ON THE FINAL DAY OF THE MEETING TABLED A BRACKETED COPY OF THE ADMINISTRATIVE PROVISIONS OF THE PRODUCER PROPOSAL BUT THERE WAS LITTLE DISCUSSION ON IT.

2. THE MOST LIVELY DEBATE TOOK PLACE BETWEEN THE US AND EC ON BUFFER STOCK SIZE, EXPORT CONTROLS AND THE CENTRAL

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PRICING MECHANISM. MAJOR CONSUMERS, IN GENERAL, WERE FAVORABLY DISPOSED TOWARD MARKET ORIENTED PRINCIPLES UPON WHICH THE US PROPOSED PRICING MECHANISM WAS BASED, SHOWED SOME SIGNS OF FLEXIBILITY ON EXPORT CONTROLS, BUT MAINTAINED A HIGHLY SKEPTICAL VIEW TOWARD THE LARGE SIZE OF THE US PROPOSED BUFFER STOCK. THE LATTER ISSUE MAY PROVE TO BE THE MOST DIFFICULT TO RESOLVE IN

ATTEMPTING TO DEVELOP A COMMON CONSUMER POSITION AT THE JULY 3-7 MEETING. END SUMMARY.

3. FOLLOWING IS A BRIEF REVIEW OF THE MAJOR ISSUES DISCUSSED AT THE MEETING:

4. BUFFER STOCK SIZE. MOST ATTENTION AT THE MEETING WAS GIVEN TO THE US PROPOSAL FOR A PURE BUFFER STOCK OF 700,000 METRIC TONS. ALMOST ALL CONSUMERS WERE SKEPTICAL ABOUT THE NEED FOR A STOCK THAT LARGE, MOST WERE WORRIED ABOUT THE FINANCIAL OBLIGATIONS INVOLVED, AND SOME CONCERNED ABOUT THE ABILITY OF PRODUCERS TO FINANCE THEIR SHARE. THOUGH MOST AGREED WITH THE U.S. THAT A RUBBER AGREEMENT SHOULD BE DESIGNED TO MEET EXTREME MARKET CIRCUMSTANCES, THEY ARGUED THAT A SUBSTANTIALLY SMALLER STOCK, COUPLED WITH SUPPLY RATIONALIZATION MEASURES AT THE FLOOR AND CEILING, COULD ADEQUATELY MEET SUCH CONTINGENCIES. AMONG MAJOR CONSUMERS, ONLY THE EC FORMALLY PROPOSED AN ALTERNATIVE SIZE OF "AT LEAST 300,000 TONS" AND US REPS WERE TOLD PRIVATELY THAT MOST MEMBERS OF THE COMMUNITY WERE WILLING TO GO TO 400,000. THE JAPANESE INDICATED THAT THEY WERE CONSIDERING 400,000 TONS, BUT WOULD HAVE DIFFICULTY CONVINCING THEIR FINANCE MINISTRY OF A HIGHER FIGURE.

5. EXPORT CONTROLS. FIRM US STATEMENTS AGAINST EXPORT LIMITED OFFICIAL USE

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CONTROL PROVISIONS IN AN AGREEMENT SEEMED, BY WEEK'S END, TO RESULT IN SOME MOVEMENT BY OTHER CONSUMERS. THE EC PROPOSAL TABLED EARLY IN THE WEEK PROVIDED THAT, WHEN BUFFER STOCK FUNDS ARE EXHAUSTED, THE COUNCIL COULD, BY A TWO-THIRDS DISTRIBUTED MAJORITY, IMPLEMENT SUPPLY RATIONALIZATION AND/OR OTHER APPROPRIATE MEASURES. BUT IN A SUBSEQUENT PAPER, THE EC MODIFIED THIS STANCE TO EXPLICITLY PROSCRIBE PRODUCTION CONTROLS AND ALLOW THE COUNCIL TO DECIDE TO (1) INCREASE BUFFER STOCK RESOURCES, (2) IMPOSE EXPORT CONTROLS OR (3) ESTABLISH NATIONAL STOCKS WHEN INITIAL BUFFER STOCK IS EXHAUSTED. IN ANY CASE, THE EC PAPER REJECTS SUCH CONTINGENCY MECHANISMS UNLESS ADEQUATE SUPPLIES AT THE CEILING COULD BE GUARANTEED BY PRODUCERS. THE JAPANESE DELEGATE NOTED PRIVATELY THAT THERE IS SOME SENTIMENT IN TOKYO FOR A BUFFER STOCK ARRANGEMENT WITHOUT EXPORT CONTROLS. THE NORDICS, WHILE ADVOCATING EXPORT CONTROLS, MADE GOOD STATEMENT NOTING THEIR PROBLEMS AND APPEARED TO SHOW FLEXIBILITY ON THIS ISSUE.

6. CONTROL PRICING MECHANISM/INDICATOR PRICE. THE U.S. PROPOSED CREATION OF A SEMI-AUTOMATIC, MARKET ORIENTED

MECHANISM TO DEPOLITICIZE DECISIONS ON REVISION OF THE PRICE RANGE IN A RUBBER AGREEMENT. INITIAL RESPONSES OF THE EC AND JAPAN WERE FAVORABLE TO THE OBJECTIVES OF THE PROPOSAL, AND RECOGNIZED THE LIKELY ADVANTAGE OF THIS MECHANISM OVER A PURELY CONSULTATIVE PROCESS. THE NORDICS REFLECTED THE CONCERN OF SOME CONSUMERS THAT THE MECHANISM WOULD LIKELY BE UNACCEPTABLE TO PRODUCERS. HOWEVER, MOST CONSUMERS VOICED NEED TO STUDY FURTHER ITS ELEMENTS AND IMPLICATIONS BEFORE MAKING DEFINITIVE RESPONSE. SPECIFICALLY, EC AGREED WITH PRINCIPLES ON WHICH THE MECHANISM IS BASED, BUT SUGGESTED A MODIFICATION TO THE U.S. PROPOSAL WHICH WOULD TIME REFERENCE PRICE CHANGES IN ACCORD WITH BUFFER STOCK ACTIVITY.

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THEIR ALTERNATIVE, THEY BELIEVE, MIGHT BETTER ACCOMMODATE THE DESIRES OF PRODUCERS FOR PRICE SECURITY AT THE FLOOR. JAPAN RESERVED ITS POSITION, BUT STATED THAT U.S. AND EC PROPOSALS WILL RECEIVE SERIOUS CONSIDERATION IN TOKYO.

7. INDICATOR PRICE. OTHER CONSUMERS SEEMED TO APPRECIATE U.S. ARGUMENTS ABOUT THE DANGERS OF USING MOVEMENTS IN RSS1 PRICES TO TRIGGER BUFFER STOCK INTERVENTIONS. NEVERTHELESS,

THEY REMAINED CONCERNED THAT A TRADE WEIGHTED, COMPOSITE INDICATOR PRICE SUGGESTED BY THE U.S. MAY BE TOO COMPLICATED IN PRACTICE. THEY DID, HOWEVER, INDICATE A WILLINGNESS TO CONTINUE TO CONSIDER A COMPOSITE INDICATOR.

8. EXPORT TAXES. THE RESPONSE OF CONSUMERS TO THE US LIMITED OFFICIAL USE

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CALL FOR SUPPORT IN PRESSING PRODUCERS TO ELIMINATE THE PROGRESSIVITY AND REDUCE THE RATES ON RUBBER EXPORT TAXES WAS GENERALLY CAUTIOUS. THEY RESPONDED SIMILARLY TO US PROPOSAL THAT THE AGREEMENT INCLUDE A PROVISION REQUIRING PRIOR CONSULTATIONS WITHIN THE RUBBER COUNCIL FOR CHANGES IN DOMESTIC FISCAL AND ADMINISTRATIVE POLICIES AFFECTING SUPPLIES AND PRICES OF NATURAL RUBBER. EC AND JAPAN RECOGNIZED THAT PROGRESSIVE EXPORT TAXES WORKED AT CROSS-PURPOSES WITH THE OBJECTIVES OF THE AGREEMENT AND ADVERSELY AFFECTED THEIR INTERESTS, BUT WERE WARY OF THE REACTION OF PRODUCERS TO EFFORTS TO CHANGE TAXES. CANADA AND AUSTRALIA WERE PARTICULARLY CONCERNED ABOUT THE POSSIBLE IMPLICATIONS FOR CERTAIN CONSUMER COUNTRY POLICIES.

9. OTHER MEASURES. OTHER CONSUMERS WERE UNPREPARED TO RESPOND DIRECTLY TO THE U.S. PROPOSAL THAT: (1) THE AGREEMENT SHOULD PROVIDE AN INSTITUTIONAL FRAMEWORK TO FACILITATE PROGRAMS AND POLICIES AIMED AT IMPROVING THE EFFICIENCY AND DEVELOPMENT OF THE NATURAL RUBBER INDUSTRY; AND (2) APPROPRIATE PROJECTS OF BENEFIT TO ALL MEMBERS, IF AGREED, COULD BE FINANCED JOINTLY BY PRODUCERS AND CONSUMERS IN THE EVENT OUTSIDE FINANCING FACILITIES ARE INADEQUATE. OTHER CONSUMERS LIMITED THEIR COMMENTS TO QUESTIONS ABOUT THE U.S. PROPOSAL, BUT INDICATED THAT THEY WOULD RESPOND MORE DEFINITELY AT THE JULY CONSUMERS MEETING.

10. NEXT STEPS. ACCORDING TO THE SCHEDULE SET BY THE THIRD PREPARATORY MEETING IN FEB/MARCH, CONSUMERS ARE DUE TO CIRCULATE A CONSUMER PROPOSAL/PROPOSALS TO PRODUCERS BY MID-JULY. SINCE THERE ARE DIVERGENCES IN VIEWS ON SUCH CRITICAL ISSUES AS BUFFER STOCK SIZE AND LIMITED OFFICIAL USE

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EXPORT CONTROLS, AND IN VIEW OF THE SHORT PERIOD OF TIME BEFORE THE FINAL CONSUMER MEETING WHICH BEGINS JULY 3,

MOST CONSUMERS REALIZED THE DIFFICULTY OF DRAFTING A COMPREHENSIVE CONSUMER POSITION IN THAT TIMEFRAME. IN FINAL DISCUSSION OF MEETING, SOME CONSUMERS SUGGESTED THAT PERHAPS A STATEMENT OF GENERAL PRINCIPLES BE PROVIDED TO PRODUCERS, WHILE OTHERS FELT THAT SEPARATE PROPOSALS WOULD BE BEST. IT WAS AGREED THAT A DECISION WOULD BE MADE AT THE JULY MEETING WHEN IT WOULD BE EASIER TO ASSESS THE DEGREE OF CONSUMER CONSENSUS OF THESE MAJOR ISSUES. VANDEN HEUVEL

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